



OCK Group Berhad

Telco Contractor Evolving into Tower Owner

FV: RM 0.41(+15%)

ACE Market Listing

Non-rated

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OCK Group (OCK) is an integrated telecommunications network services provider that designs, plans, builds and maintains telecommunications systems (eg. Base Transceiver Stations (BTS)). OCK's customers comprise of telco operators (eg. Maxis, Celcom Digi) and technology providers to telco operators (eg. Ericsson, Huawei, Alcatel-Lucent). OCK is venturing into a new business model to build its own telco towers and lease it to telco operators for a fee. We expect high demand for OCK's towers from telco operators, which are seeking to focus on their core telco business and lower overall costs via tower sharing or renting.

A key risk for OCK is high capex requirements to build new telco towers (circa RM17.5 mn p.a. to fulfil licensing requirements). However, this risk is mitigated by secure rental cashflows due to potential high take-up rate and we anticipate the company to progressively announce new rental contracts in the near to medium term. We value the stock at RM0.41 based on 10x FY13 EPS which we deem fair due to the solid growth prospects of the company via the lucrative lease business. There is upside to our FY13-15 EPS estimates as we have not incorporated earnings from OCK's tower rental business, which we believe is a catalyst for earnings to be rerated upwards, and a significant future growth driver.

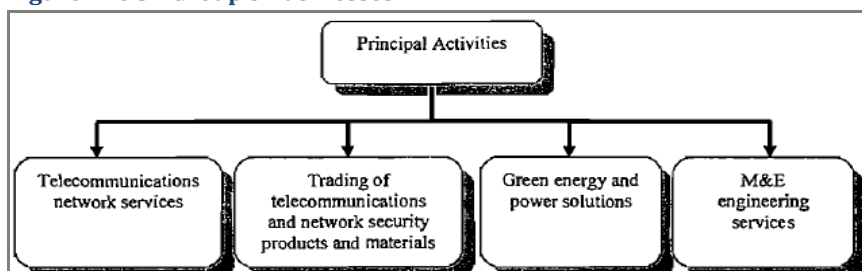
BACKGROUND

OCK Group (OCK) is a telecommunications network services provider established in 2000. OCK designs, plans, builds and maintains telecommunications systems (eg. Base Transceiver Stations (BTS)) for its customers comprising:- (i) telco operators (eg. Maxis, Celcom Digi); or (ii) technology providers to telco operators (eg. Ericsson, Huawei, Alcatel-Lucent).

Besides telco network services, OCK has other non-core businesses comprising:-

- (1) Distribution of telco network equipment & materials (eg. antennas, feeder cables, connectors) and also network security products & solutions (eg. Rapid7, Ironkey, Giritel, Lumension Security, Secure Logix software)
- (2) Green energy and power solutions: Supply of power generation equipment (eg. transformers, engine-generators, solar panels)
- (3) M&E engineering: Mechanical and electrical engineering services mainly for construction of BTS sites

Figure 1: OCK Group's Businesses



Source: Prospectus

Share Information

Listing	ACE Market
Enlarged Share Capital (mn)	286
Market Cap @ RM0.36 (mn)	93.24
Par Value (RM)	0.10
Issue Price (RM)	0.36
Oversubscription rate	NA
Estimated free float (%)	29
Tentative Listing Date	17-Jul-12

Tentative Listing Dates

Event	Tentative Date
Opening of the IPO	29-Jun-12
Closing of the IPO	6-Jul-12
Balloting of Applications	10-Jul-12
Allotment of Shares	13-Jul-12
Listing	17-Jul-12

Ratio & Analysis

NTA per share (post IPO)(sen)	17
Price to NTA (x)	2.1
Proforma ROE (%)	19.0
Proforma ROA (%)	9.4
Proforma Net Gearing (x)	0.1
Proforma Current Ratio (x)	1.7

Utilisation of Proceeds

	RM mn	%
Capital Expenditure	9.9	36.7
Operating Expenditure	9.7	35.9
Working Capital	5.4	20.0
Listing Expenses	2.0	7.4
TOTAL	27.0	100

Figure 2: OCK Group's Target Customers

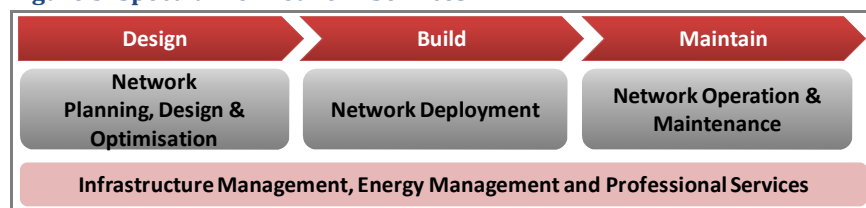
Principal Activities	Customers
Telecommunication Network Services	- Telecommunication Operators (Maxis, Celcom, DiGi, U Mobile, P1, Wimax) - Technology Providers (Ericsson, Alcatel-Lucent, Huawei, ZTE, NEC)
Trading	
(1) Telco network equipment & materials	- Other telco network service providers - Technology Providers - Telco Operators
(2) Network Security Products & Solutions	Enterprise Customers
Green Technology	Institutions, factory owners, other property owners
M&E Engineering	Non-telco related clientele

Source: Prospectus, TA Securities

Telecommunication Network Services

OCK provides turnkey solutions ranging for its clients comprising:- (1) Telco operators; or (2) Technology Providers to Telco operators. In the latter case, OCK being the subcontractor, uses telco equipment manufactured by the technology provider itself. In the former case, whereby the Telco operator engages OCK directly, the group will source telco equipment from various technology providers. OCK is involved in each stage of developing a network, starting from design to build, and finally, operations/maintenance.

Figure 3: Spectrum of Network Services



Source: Prospectus

Figure 4: Network Services by Stage

Stage	Range of Services
Design	Propose network design; procure regulatory approvals for BTS site; negotiate rental agreements with land/tower/building owners for BTS site
Build	Procure telco equipment; engage civil contractors for BTS site; execute M&E engineering services (eg. laying electrical/grounding/ air-conditioning systems.); installation, commissioning & testing of telco equipment; network integration (between existing and new telco equipment)
Maintain	(i) Corrective and preventive maintenance after handover of telco tower (ii) Daily operations, maintenance

Source: Company, TA Securities

Figure 5: Past Contract Wins

2005:	Network deployment contract by DiGi
2006:	Turnkey network deployment contract by U Mobile
2007:	<ul style="list-style-type: none"> IBC contract by Maxis • Field maintenance contract by NSN and Alcatel-Lucent to maintain Celcom's 3G radio base station and radio microwave equipment • Managed service contract by Ericsson to maintain U Mobile's civil, M&E infrastructure, 3G radio base station and radio microwave equipment • Celcom's 3G swap contract by Alcatel-Lucent involving the replacement of old generation equipment with new 3G equipment
2008:	<ul style="list-style-type: none"> WiMAX network deployment contract by Alcatel-Lucent • Radio and microwave equipment installation, testing and commissioning contract by ZTE • Installation, testing and commissioning of radio microwave equipment and project management contract by NEC for DiGi
2009	<ul style="list-style-type: none"> Turnkey network deployment contract by Huawei, Ericsson and Alcatel-Lucent • Contract for installation, testing and commissioning for optical SDH and DWDM equipment by Alcatel-Lucent • Contract for installation, testing and commissioning of WiMAX equipment by ZTE
2010	<ul style="list-style-type: none"> WiMAX network deployment contract by YTL • Implementations contract by Huawei for Maxis's NGBB • Radio network optimisation contract by Alcatel-Lucent to optimise Celcom's 3G network
2011	<ul style="list-style-type: none"> Turnkey WiMAX network deployment contract by Millercom Sdn Bhd, a wholly owned subsidiary of P1 • Radio network optimisation contract by Huawei to optimise DiGi's network • Radio network optimisation contract by Huawei to optimise Celcom and U Mobile's network • Radio equipment modernisation contract by Huawei to modernise Celcom's 3G network • Radio equipment swap contract by ZTE to upgrade DiGi's old equipment • Microwave links and related equipment installation services contract by SIAE • Design, construction, implementation and consolidation of sites contract by DiGi and Celcom

Source: Company, TA Securities

ORDERBOOK

OCK's current outstanding orderbook of RM67.1mn is equivalent to 0.76x of FY11 revenue.

Figure 6: Current Outstanding Orderbook by Segment

	RM mn	%
Telco Network Services	44.4	66%
Green Energy	7.6	11%
Trading	0.8	1%
M&E	14.4	21%
Total	67.1	

Figure 7: Current Outstanding Orderbook by Customer Type

	RM mn	%
Telco Operators	19.5	29%
Telco Service Providers	21.2	32%
Others	26.4	39%
Total	67.1	

STATISTICS OF THE IPO

1. Market Cap based on IPO listing: RM 93.24mn (based on IPO price of RM0.36/share),
2. Total IPO comprises offering of 75.0mn new shares:-
 - (i) Retail offering of 7.0mn (2.7%) shares:-
 - I. 3.5mn for bumiputra investors
 - II. 3.5mn for other public investors
 - (ii) 9.5mn (3.67%) shares for eligible employees;
 - (ii) 58.5mn (22.6%) shares for private placement to selected investors.

USE OF IPO PROCEEDS

The bulk of the listing proceeds (36.7%) will be utilized to fund the Group's new business venture of building telecommunication towers to be rented out to telco operators.

Figure 8: Use of IPO Proceeds

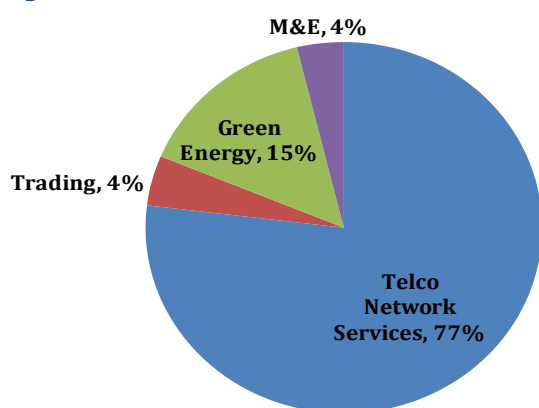
Purpose	RM mn	%
Capital Expenditure	9.9	36.7
Operating Expenditure	9.7	35.9
Working Capital	5.4	20.0
Listing Expenses	2.0	7.4
Total	27.0	100

Source: Prospectus, TA Securities

REVENUE & PROFIT BREAKDOWN

OCK's main source of revenue is Telecommunications Network Services which comprises 77% of the group's total revenue. Nevertheless, contribution of the Green Energy business to total revenue is growing, whereby this segment registered 70% YoY growth in FY11 (FY10: 535%).

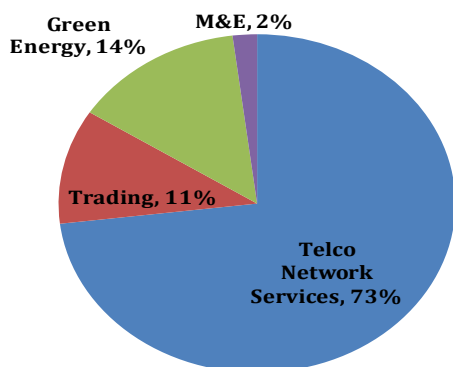
Figure 9: FY11 Revenue Breakdown



Source: Company, TA Securities

Although Trading merely contributes 4% to total group revenue, its contribution to gross profit is higher at 11% due to higher gross margin of 31% vs. 24% for Telco Network Services and 15% for Green Energy.

Figure 10: FY11 Gross Profit Breakdown



Source: Company, TA Securities

EXPANSION PLANS

New Business Venture

OCK is venturing into a new business, which involves renting out telecommunications towers to telco operators. In essence, OCK will build and own these towers which it rents out to telco operators for a fee. Depending on demand, OCK may rent out space on a tower to multiple telco operators to derive additional rental income. The group is also open to the option of buying existing towers from telco operators and leasing it back to them. OCK was granted a Network Facility Provider (NFP) license in November 2011 with a validity period of 5 years that enables the group to build and own telco towers.

The estimated cost of each tower site is circa RM350K and the tower assets are expected to be depreciated over a period of 25 years. If we assume that for each tower, OCK derives rental revenue of RM6k/month with 70% site financing over 5 years, this would translate to net margins of 38% in the tower's 1st year of operations. Given that OCK is required to build 50 towers p.a. to maintain its NFP license, hence this would translate to a minimum bottomline contribution of RM1.38mn to OCK in FY13 or 13% of FY13 net profit. OCK Group intends to utilize RM9.9mn of its listing proceeds to implement its tower ownership ambitions.

We think the group will fast track its NFP plans urgently in view of the requirement imposed upon NFP license holders, whereby licensees are obligated to build and own 40 telco towers in the next one year after the license's issuance, and subsequently 50 towers p.a. for the next 5 years. By 29 November of FY12, OCK would need to own at least 40 telco towers or risk having its NFP license revoked, unless it obtains an exemption or a time extension from MCMC.

In line with escalating infra costs due to the rapid expansion of technology, and the government's call to optimize network deployment, telco operators are joining forces to share network infrastructure resources. This enables telco operators to reduce tower rental expenditure, share set-up costs, and spread out transmissions costs while simultaneously increasing network coverage and depth.

OCK is one of the three service providers currently involved in the network collaboration project between DiGi and Celcom with estimated project value of RM400mn over 3 years that involves installation and dismantling works at 12,000 sites. In the long run, we view the consolidation of industry network infra as a loss of business opportunities for OCK. Therefore, OCK's move to diversify into tower ownership will enable the group to offset loss of revenue from reduced demand for telco network services. We also expect healthy demand for OCK's towers from local telco operators which are seeking to lower overall costs via tower sharing or renting.

Background on NFP Licenses

NFP licenses are issued by the Malaysian Communications and Multimedia Commission (MCMC) and typically awarded to radio and television broadcasters, cellular network operators and broadband internet service providers (ISPs). NFP licensees are allowed to build, own and operate satellite stations, broadband fibre optic networks, telco towers etc. Out of the 117 NFP licensees, only 17 companies, including OCK, are granted rights to provide network facilities comprising towers, poles, ducts and pits. The majority of these 17 companies are owned/backed by state governments.

Regional Expansion Plans

On top of the group's venture into tower ownership, OCK also plans to expand to ASEAN countries by end-2012 whereby OCK has commenced project trials for optimization and drive test services for a telco operator in Vietnam. The group is also currently in negotiations with technology providers in Indonesia and Vietnam.

INVESTMENT SWOT

Figure 11: SWOT analysis

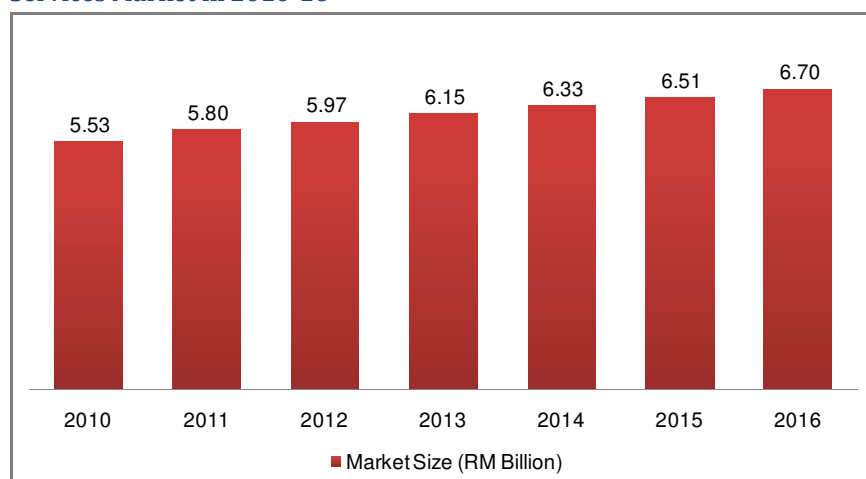
Strengths	Weaknesses
<ul style="list-style-type: none"> - One-stop solution provider that provides integrated turnkey solutions. - One of few private companies that possess a NFP license to build and own telco towers. 	<ul style="list-style-type: none"> - High capex requirements to build new telco towers.
Opportunities	Threats
<ul style="list-style-type: none"> - Telco operators are cutting back network investments via rental of telco towers to remain asset-light. - Expansion in high growth regional markets such as Vietnam and Myanmar. 	<ul style="list-style-type: none"> - Infrastructure sharing between telco operators reduces demand for telco network services.

Source: Prospectus, TA Securities

OUTLOOK

According to Protégé Associates, the telecommunications network services market in Malaysia is projected to grow from its estimated market size of RM5.80bn in 2011 to RM6.7bn in 2016, which is equivalent to a CAGR of 2.9% over 2011-16. In addition, Protégé estimates that 25%-35% of the total market size of RM5.80bn can be attributed to OCK's core business, namely in the areas of network planning, design and optimization, network deployment, network operations and maintenance, infrastructure management, energy management and professional services.

Figure 12: Market Size of Malaysia's Telecommunications Network Services Market in 2010-16

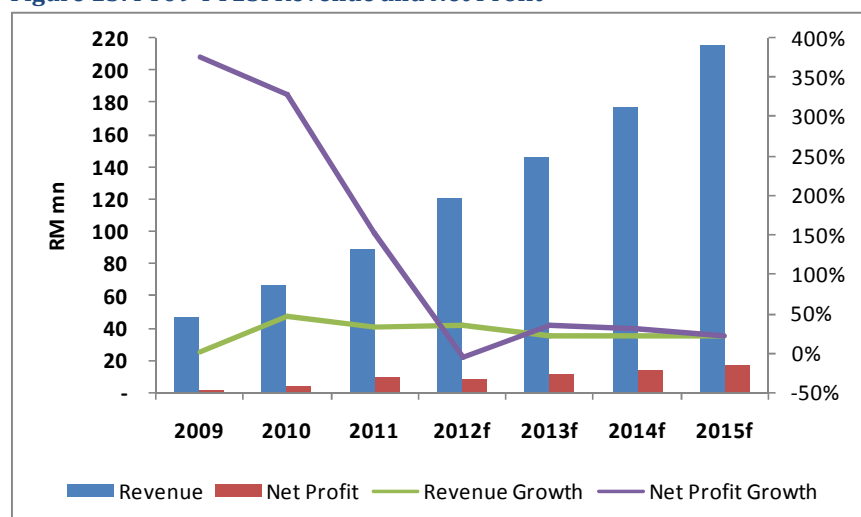


Source: Prospectus, Protégé Associates

FINANCIAL HIGHLIGHTS

We expect OCK to register net profit RM7.95mn in FY12 (-7% YoY) and RM11.5mn in FY13 (+35% YoY) driven mainly by growth in its Trading and Green Energy business segments. There is upside to our earnings estimates as we have not incorporated earnings from OCK's new tower rental business which we anticipate to be rolled out as early as 4Q12.

Figure 13: FY09-FY15f Revenue and Net Profit



Source: Prospectus, TA Securities

PEERS COMPARISON

The number of telco network services market players in Malaysia is relatively small with an estimated 200 players. Of these, an estimated 10% may be classified as Tier-1 market players with annual revenue of at least RM25mn. Comparable peers of OCK include Instacom Engineering Sdn Bhd and R&A Telecommunication Sdn Bhd which are non-listed Tier-1 telco network services providers.

Figure 14: OCK's Comparable Peers

Indicator	OCK Group	Instacom*	R&A
FYE	31 Dec 2010	31 Dec 2010	31 Dec 2010
Revenue (RM)	66,778,000	47,402,310	38,750,660
GP Margin (%)	17.8	16.6	47.8
PBT (RM)	4,989,000	4,310,764	7,210,401
PBT Margin (%)	7.5	9.1	18.6
PAT (RM)	3,516,000	3,473,806	5,273,553
PAT Margin (%)	5.3	7.3	13.6

Source: Prospectus, Protégé Associates

DIVIDEND POLICY

OCK does not have a formal dividend policy but we anticipate management to retain earnings to fund expansion plans for the company, which is currently in its growth stage. Therefore, we do not incorporate any dividend payouts in our earnings forecasts.

VALUATION

There are no listed companies within Malaysia and the region which are directly comparable to OCK in terms of business model. We arrive at a fair value of RM0.41 (upside: 15%) for OCK by applying a 10x target multiple to FY13 EPS which we deem fair due to the solid growth prospects of the company which is venturing into the lucrative business of renting out telco towers. There is upside to our FY13-15 EPS estimates as we have not incorporated earnings from OCK's new tower rental business, which we believe is a catalyst for earnings to be rerated upwards, and a significant future growth driver.

EARNINGS SUMMARY

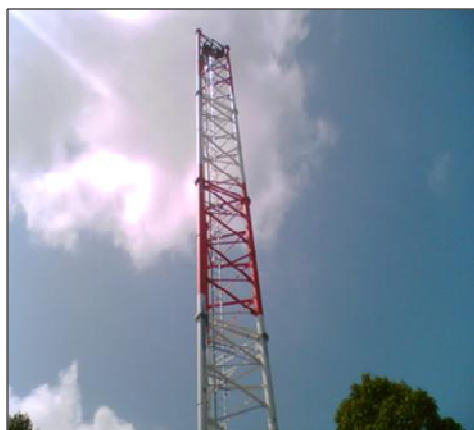
	2008	2009	2010	2011	2012f	2013f	2014f	2015f
Revenue	45.6	45.9	66.8	88.3	120.0	146.1	176.6	214.8
Cost of Sales	(39.8)	(39.2)	(54.9)	(65.9)	(147.4)	(180.1)	(218.3)	(264.8)
Gross Profit	5.8	6.8	11.9	22.4	27.4	34.0	41.7	50.0
Other Income	0.6	0.8	0.7	2.3	1.8	2.2	2.6	3.2
Admin Expenses	(4.4)	(4.8)	(6.3)	(10.8)	(15.6)	(19.0)	(23.0)	(27.9)
EBITDA	2.7	3.6	7.3	14.8	15.0	18.9	23.4	27.8
<i>EBITDA margin (%)</i>	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1
Depreciation	(0.8)	(0.9)	(1.0)	(1.0)	(1.4)	(1.7)	(2.1)	(2.5)
EBIT	2.0	2.7	6.4	13.9	13.6	17.2	21.4	25.3
Finance costs	(1.4)	(1.4)	(1.4)	(1.6)	(2.1)	(2.1)	(2.1)	(2.1)
Interest income	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Pretax Profit	0.5	1.3	5.0	12.3	11.5	15.1	19.3	23.2
Taxation	(0.4)	(0.5)	(1.5)	(3.1)	(2.9)	(3.8)	(4.8)	(5.8)
Profit after tax	0.2	0.8	3.5	9.2	8.6	11.3	14.5	17.4
Minority interest	0.0	0.0	(0.1)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
Net Profit	0.2	0.8	3.4	8.5	7.9	10.7	13.8	16.8
EPS (sen)	0.1	0.4	1.8	3.3	3.1	4.1	5.3	6.5
<i>EPS growth</i>		375%	328%	79%	-7%	34%	29%	21%

* 2011-15f based on enlarged share capital of 259mn

Source: Prospectus, TA Securities

APPENDIX

Figure: Types of Telecommunications Infrastructure



Three Legged Tower



Unipole



Monopole Tree



Boom Type BTS

Disclaimer

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